

Message Text

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INFO OCT-01 ISO-00 AID-05 EB-07 COME-00 TRSE-00 OMB-01

DOT-00 OES-06 XMB-02 CIEP-01 IO-13 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 INT-05 AGR-05 AGRE-00 /102 W

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R 022054Z SEP 76

FM AMEMBASSY ASUNCION

TO SECSTATE WASHDC 8212

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

AMEMBASSY MONTEVIDEO

AMEMBASSY SANTIAGO

USCINCSO

C O N F I D E N T I A L SECTION 1 OF 2 ASUNCION 3692

E.O. 11652: XGDS-1

TAGS: EGEN, ECIN, PFOR, AR, PA

SUBJ: VISIT OF ARGENTINE ECONOMY MINISTER

REF: ASUNCION 3168

SUMMARY. ARGENTINE ECONOMY MINISTER MARTINEZ DE HOZ VISITED PARAGUAY AUGUST 26-30 AS A FOLLOW UP TO JULY VISIT OF FOREIGN MINISTER GUZZETTI (SEE REFTEL). THE MAJOR ANNOUNCEMENTS MADE DEALT WITH AN AGREEMENT FOR ARGENTINA TO BUILD A ROAD IN THE PARAGUAYAN CHACO, THE CONSTRUCTION OF A BRIDGE BETWEEN POSADAS AND ENCARNACION, AND A REAFFIRMATION OF THE COMMITMENT TO THE YACYRETA HYDROELECTRIC PROJECT. MARTINEZ DE HOZ MADE A VERY FAVORABLE IMPRESSION BY DINT OF HIS PERSONALITY AND WHAT THE PARAGUAYANS DESCRIBE AS STRAIGHT TALK. MORE IMPORTANTLY, FOLLOWING ON THE HEELS OF GUZZETTI, HIS VISIT IS SEEN AS A SIGN OF SINCERITY IN ARGENTINA'S
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MOVE TO IMPROVE BILATERAL RELATIONS AND REGAIN ITS

FORMER INFLUENCE HERE. IT UNDOUBTEDLY FIRMED UP THE TENTATIVE FEELINGS THAT A NEW FRIENDLINESS MAY BE ENTERING THE HISTORICALLY TURBULENT RELATIONSHIP BETWEEN THE TWO COUNTRIES. END SUMMARY.

1. ARGENTINE MINISTER OF THE ECONOMY DR. JOSE ALFREDO MARTINEZ DE HOZ VISITED PARAGUAY AUGUST 26-30, JUST ONE MONTH AFTER FOREIGN MINISTER GUZZETTI. LIKE HIS COLLEAGUE HE MET WITH PRESIDENT STROESSNER AND OTHER HIGH GOP OFFICIALS, PARTICIPATED IN A ROUND OF CEREMONIAL FUNCTIONS, AND RECEIVED A HIGH PARAGUAYAN DECORATION. MARTINEZ DE HOZ STRESSED HIS COUNTRY'S SINCERE DESIRE TO ACHIEVE SIGNIFICANT AND LASTING IMPROVEMENTS IN RELATIONS WITH PARAGUAY, AND POINTED OUT THAT HE WOULD LIMIT HIS PROMISES TO WHAT IS POSSIBLE NOW, WITH THE UNDERSTANDING THAT OTHER PROBLEMS COULD BE RESOLVED WHEN ARGENTINA'S ECONOMIC AND POLITICAL RECOVERY IS ASSURED.

2. DURING THE VISIT ARGENTINA AGREED TO BUILD A 30 KM. PAVED ROAD LINKING THE ARGENTINE ROAD SYSTEM WITH PARAGUAY'S TRANS-CHACO HIGHWAY AT AN ESTIMATED COST OF DOLLARS \$6.5 MILLION AND PROMISED TO UPDATE AND COMPLETE THE FEASIBILITY STUDIES AND PLANS FOR IMPROVING PARAGUAY'S ROUTE 4. MARTINEZ DE HOZ ALSO ANNOUNCED THAT ARGENTINA WOULD CALL FOR BIDS IN DECEMBER FOR THE CONSTRUCTION OF A BRIDGE OVER THE ALTO PARANA RIVER BETWEEN ENCARNACION AND THE ARGENTINE CITY OF POSADAS. HE STRONGLY REAFFIRMED ARGENTINA'S COMMITMENT TO THE YACYRETA HYDROELECTRIC PROJECT, SIGNING JOINTLY WITH THE PARAGUAYAN FINANCE MINISTER LETTERS TO THE IDB AND IBRD, A PRELIMINARY STEP IN THE SEARCH FOR FINANCING. NO COMMITMENTS WERE MADE ON THE LONGER TERM CORPUS DAM PROJECT.

3. STRESSING THAT HE WOULD NOT NOW PROMISE MORE THAN HE CAN DELIVER, DE HOZ CLAIMED THAT OTHER PROBLEMS WOULD BE EASILY RESOLVED, AND ADDITIONAL PROJECTS CONFIRMED, ONCE ARGENTINA'S ECONOMIC RECOVERY WAS ASSURED. ITEMS IN THIS CATEGORY INCLUDE PARAGUAYAN REQUESTS FOR BETTER ACCESS TO THE ARGENTINE MARKET FOR LUMBER AND

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CITRUS FRUITS; VARIOUS ARGENTINE CREDITS; A FORMAL AGREEMENT FOR 50/50 SHARING OF TRANSVERSAL RIVER TRAFFIC; NEW AIRLINE SCHEDULES; AND A PARAGUAYAN FREE PORT NEAR BUENOS AIRES FOR PETROLEUM PRODUCTS. A PRIVATE DELEGATION OF INDUSTRY LEADERS WILL SOON VISIT BUENOS AIRES TO DISCUSS LUMBER. AN OFFICIAL GOP GROUP WITH REPRESENTATIVES FROM THE MINISTRIES OF FOREIGN AFFAIRS, INDUSTRY AND COMMERCE, FINANCE, AND PUBLIC WORKS WILL FOLLOW TO WORK

ON A FULL RANGE OF PROBLEMS AND PROJECTS.

4. THE DIRECTOR OF INTERNATIONAL ORGANIZATIONS AND TREATIES AT THE MINISTRY OF FOREIGN AFFAIRS TOLD EMBOFF HE BELIEVED ARGENTINA WOULD FOLLOW UP ON SPECIFIC PROMISES MADE, AND THAT THERE WAS A GOOD CHANCE PENDING ITEMS WOULD BE IRONED OUT IN REASONABLY SHORT ORDER. THIS CAUTIOUS OPTIMISM CONTRASTED WITH THE SKEPTICISM HE DISPLAYED AFTER THE GUZZETTI VISIT. (SEE REFTEL). ALL GOP OFFICIALS CONTACTED WERE CLEARLY IMPRESSED BY MARTINEZ DE HOZ. THEY PRAISED HIS PERSONABLE AND FORTHRIGHT MANNER, HIS HONESTY IN RELATING ARGENTINE ASSISTANCE TO DOMESTIC ECONOMIC PROBLEMS, AND HIS REFUSAL TO MAKE EMPTY PROMISES.

5. IN DISCUSSION WITH EMBOFFS, ECONOMIC COUNSELOR OF ARGENTINE EMBASSY APPEARED GREATLY PLEASED WITH RESULTS OF VISIT. HE SPOKE OF GOOD IMPRESSION MADE BY MARTINEZ DE HOZ PERSONALLY. HE WAS OPTIMISTIC THAT ARGENTINA WOULD REGAIN ITS PLACE OF INFLUENCE IN PARAGUAY, AN INFLUENCE BASED ON POLITICAL, CULTURAL, AND SOCIAL TIES AS WELL AS ECONOMIC ONES.
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6. POLITICAL COUNSELOR OF THE BRAZILIAN EMBASSY SAID THEIR READING OF THE SITUATION WAS THAT ARGENTINA HAD IN FACT MADE SOME PROGRESS TOWARDS IMPROVING RELATIONS WITH PARAGUAY, BUT THAT THEY STILL HAD A LONG WAY TO GO BEFORE THIS WOULD HAVE ANY IMPACT ON THE POSITION OF BRAZIL IN PARAGUAY. HE SAID THE PARAGUAYANS ARE STILL LOOKING FOR A MAJOR GESTURE FROM ARGENTINA TO PROVE THAT THEIR INTENTIONS ARE SINCERE, SUCH AS AN OFFER TO FINANCE THE YACYRETA HYDROELECTRIC PROJECT UNILATERALLY. HE ALSO SAID THAT PARAGUAYAN LEADERS HAVE REASSURED THE BRAZILIANS THAT NOTHING HAS CHANGED AS A RESULT OF THE TWO VISITS. NOTE: THIS INDICATES GOP MAY BE REVERTING TO TRADITIONAL POLICY OF PLAYING OFF ITS TWO LARGE NEIGHBORS, ONE AGAINST THE OTHER. IN LIGHT OF EXTENSIVE BRAZILIAN ECONOMIC PENETRATION IN RECENT YEARS WE HAVE DOUBTS THAT A RETURN TO THIS OLD TECHNIQUE IS FULLY POSSIBLE.

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7. EMBASSY COMMENT. THE VISIT OF MARTINEZ DE HOZ FOLLOWS BY LESS THAN A MONTH THE VISIT OF ARGENTINE FOREIGN MINISTER GUZETTI AND APPEARS TO BE THE SECOND STEP IN A CAREFULLY ORCHESTRATED CAMPAIGN BY ARGENTINA TO BRING ABOUT A SUBSTANTIAL IMPROVEMENT IN ITS RELATIONS WITH PARAGUAY -- WITH THE LONG TERM OBJECTIVE OF RESTORING SOME OF ARGENTINA'S FORMER INFLUENCE HERE VIS-A-VIS BRAZIL. SO FAR, THE PLAN HAS BEEN WELL EXECUTED AND APPEARS TO BE CREATING THE RIGHT IMPRESSION. IN PARTICULAR, THE LOW-KEY, PRAGMATIC APPROACH OF MARTINEZ DE HOZ, NOT PROMISING MORE THAN CAN BE DELIVERED, CONTRASTS FAVORABLY WITH THE EMPTY RHETORIC PARAGUAYANS SAY CHARACTERIZED PAST ARGENTINE BEHAVIOR TOWARDS THEM. IT IS SEEN HERE AS STRONG EVIDENCE THAT ARGENTINA IS BOTH WILLING AND CAPABLE OF FOLLOWING UP ON INITIATIVE OF FOREIGN MINISTER GUZETTI AND GIVES FRESH IMPETUS TO IMPROVED RELATIONS. TWO VISITS DO NOT A RECONCILIATION MAKE, HOWEVER, AND IT WILL REQUIRE A LONG PERIOD OF TESTING ARGENTINA'S SINCERITY BEFORE BRAZIL'S CURRENT DOMINANT POSITION CAN SERIOUSLY BE CHALLENGED.
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